May 10, 2019

The Honorable Mayor and City Council
11333 Valley Boulevard
El Monte, CA 91731

Dear Mayor and City Council:

CONSIDERATION AND APPROVAL OF A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF EL MONTE, CALIFORNIA APPROVING THE ECONOMIC DEVELOPMENT SUBSIDY REPORT REGARDING A PROPOSED AGREEMENT BETWEEN THE CITY OF EL MONTE AND GRAPEVINE DEVELOPMENT AS PRESENTED OR AMENDED BY CITY COUNCIL FOLLOWING PUBLIC COMMENT

IT IS RECOMMENDED THAT THE CITY COUNCIL:

1. Open the public hearing scheduled for May 10, 2019 regarding the City Council’s consideration of the AB 562 Economic Development Report, dated April 30, 2019 for the Gateway Mixed-Use Transit Development;

2. Consider the AB 562 Economic Development Report, dated as of April 30, 2019 in the form as presented to the City Council (Attachment 1);

3. Adopt a Resolution (Attachment 2) approving the AB 562 Economic Development Report, dated April 30, 2019 in the form as presented to the City Council and declaring the intention of the City to provide certain public financing assistance to the Developer as set forth in the Resolution.

BACKGROUND

The El Monte Gateway Project is one of the largest transit-oriented development projects currently undergoing planning and improvement in the State. The El Monte Gateway Project is envisioned as a regionally significant, mixed-use transit-oriented development which integrates public mass transit, new residential housing, retail, commercial, entertainment and public recreational uses.
The State of California and the City of El Monte have previously invested public grant funds to implement the initial phase of improvement of a portion of the City-owned lands within the boundaries of the El Monte Gateway Specific Plan. These State and City grant funds have resulted in the remediation of soil contamination on portions of the site, production of 132 units of new affordable rental work force housing, the installation of new public infrastructure items to accommodate the TOD development within the specific plan area, including modification of City Water Well No. 12 and the completion of the construction of the vehicle parking structure on Parcel 4.

In order to complete the environmental remediation of Parcel 3 and the improvement of Parcel 4, and to integrate the future use and improvement of Parcel 3 and Parcel 5 into the overall project, Grapevine Development, LLC (the “Developer”) has requested the City to consider the approval of additional public investment in the project.


DISCUSSION

The information and analysis set forth in the Report is based on fiscal and economic impact data provided to the City by the Developer. The City’s economic consultant, Tierra West, has received and reviewed Developer pro formas for each of the development of four (4) parcels included in the Development site. These parcels are referred to as Parcel 2, Parcel 3, Parcel 4 and Parcel 5. The improvement of Parcel 1 has been completed and so no further public financial assistance is requested by the Developer, nor shall any City tax revenues produced by Parcel 1 be included in the proposed public financial assistance for the Development.

The Report includes the information required by Government Code Section 53083 and the Report has been augmented by a fiscal analysis of the projected revenue to be realized by the City from the Development as part of the City’s economic development plan for business retention, revenue enhancement and economic stimulation.

The Developer seeks approximately $41.93M (net present value) in new City public revenue which will be produced by the Development over an up to twenty-five (25) year period of time following completion of the improvement of the Development on Parcels 2, 3, 4 and 5 by the Developer.

The proposed economic development assistance program is based upon the future stream of new City revenues generated from Parcel 2, 3, 4 and 5. These future City revenue sources include:

(i) the transient occupancy tax which will be generated by the completion of the improvement of the new hotels on Parcel 3 and Parcel 5;
(ii) the property tax in-lieu of motor vehicle license fee revenues generated by the completion of the improvement of Parcels 2, 3, 4 and 5; and

(iii) other new retail sales taxes generated by new retailers doing business on Parcels 3, 4 and 5.

The specific amounts of such new City revenue sources arising from the completion of the Development are set forth in greater detail in the Report.

Subject to the acceptance of the Report by the City Council, the Developer and the City staff shall prepare the text of a City funds pledge agreement in favor of the Developer. The final form of the City funds pledge agreement shall be subject to separate discretionary approval by the City Council as part of the completion of the development project entitlement process for the Development, including the realignment, relocation and new improvement of portions of Pioneer Park.

As set forth in the proposed City Council Resolution which accompanies the Report, the sole source of City funds as proposed to be made available to the Developer in support of the improvement of Parcels 2, 3, 4, and 5 shall be obtained from new revenues of the City produced by the operation of the completed Development. The proposed City Council Resolution declares the intention of the City to provide certain City financial incentives for the Development in the not to exceed amounts as set forth in Section 3 of the City Council Resolution.

The Report notes that while the requested City financial incentives have a net present value of $41.93M over an up to 25 year term, the completed Development is forecast to produce an estimated $72.0M in net present value in total new revenues for the City during the same 25 year period of time.

CONCLUSION

It is recommended that the City Council:

1. Open the public hearing scheduled for May 10, 2019 regarding the City Council’s consideration of the AB 562 Economic Development Report, dated April 30, 2019 for the Gateway Mixed-Use Transit Development;
2. Consider the AB 562 Economic Development Report, dated as of April 30, 2019 in the form as presented to the City Council (Attachment 1);
3. Adopt a Resolution (Attachment 2) approving the AB 562 Economic Development Report, dated April 30, 2019 in the form as presented to the City Council and declaring the intention of the City to provide certain public financing assistance to the Developer as set forth in the Resolution.
Respectfully submitted,

ALEX HAMILTON  
City Manager

ALMA K. MARTINEZ  
Assistant City Manager

Attachments:

1. Report  
2. Resolution

DATE: May 10, 2019

PRESENTED TO EL MONTE  
CITY COUNCIL

☐ APPROVED  
☐ DENIED  
☐ PULLED  
☐ RECEIVE AND FILE  
☐ CONTINUED  
☐ REFERRED TO

CHIEF DEPUTY CITY CLERK
RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF EL MONTE, CALIFORNIA APPROVING THE ECONOMIC DEVELOPMENT SUBSIDY REPORT REGARDING A PROPOSED AGREEMENT BETWEEN THE CITY OF EL MONTE AND GRAPEVINE DEVELOPMENT AS PRESENTED OR AMENDED BY CITY COUNCIL FOLLOWING PUBLIC COMMENT

WHEREAS, City El Monte (the “City”) is undertaking the development of the “El Monte Gateway Project” in accordance with the El Monte Gateway Specific Plan; and

WHEREAS, Grapevine Development, LLC and its affiliates, Gateway Two, L.P., Gateway Four, L.P., Gateway Five, L.P., and Gateway Advisors, LLC (collectively “Grapevine”) is the lead developer as previously designated by the City to undertake the El Monte Gateway Project on the lands referred to herein as Parcel 2, Parcel 3, Parcel 4 and Parcel 5 within the boundaries of the El Monte Gateway Specific Plan (collectively, the “Grapevine Mixed Use Development Project” or the “Project”); and

WHEREAS, Grapevine has requested the City to consider the provisions of certain public revenue assistance of the City to support the development of the Project as described in the document entitled “AB 562 Economic Development Report,” dated April 30, 2019, subject to the terms of a proposed economic assistance agreement by and between Grapevine and the City; and

WHEREAS, development and operation of the Gateway Mixed Use Transit Development Project using the economic assistance provided by the City under a proposed economic assistance agreement for the Project, would provide the following benefits to the community:

1. Ensuring increased sales tax revenue, which ultimately funds essential City services while securing the City’s financial stability.

2. Creating both new construction and permanent employment opportunities for an estimated 3000 persons, thereby stimulating further generation of disposable income for residents and new sales tax revenues, property tax revenues, motor vehicle license fee in lieu revenues and transient occupancy tax revenues for the City.

3. The City has concluded that the Project would serve as a catalyst for downtown development and have a net positive impact on the entire local economy. It is estimated that the total permanent direct, indirect and induced economic output of the Project would exceed $675M over the proposed twenty-five (25) year term of the proposed pledge of certain City revenues to Grapevine derived from the Project and thereby provide a vital, productive use of previously underutilized lands adjacent to a
mass public transit facility that would otherwise have been vulnerable to graffiti, vandalism and blight.

4. The Project will create a vibrant mixed-use environment, providing a complimentary mix of housing, retail, commercial and recreational opportunities.

5. The Project reflects the highest standards in coordinated land use, urban design, transportation and infrastructure planning.

6. The Project will reduce the carbon footprint of the community and directly promote the use by the public of multi-modal mass transportation.

7. The Project will implement land uses and activities that foster citywide economic development.

8. The Project will positively influence the creation of a daytime employment and residential population which will use public mass transit.

9. The Project will provide housing opportunities for persons with a variety of incomes levels and household compositions.

10. The Project will provide more retail and dining choices for residents and businesses in the community.

11. The Project will provide hotels, conference and meeting facilities for the community.

12. The Project will provide new physical and functional connections with adjacent neighborhoods and commercial centers that will foster better utilization by the community of the public mass transit facilities situated within the El Monte Gateway Specific Plan are; and

WHEREAS, pursuant to Government Code 53083, the City has conducted a public hearing regarding the proposed economic development assistance from the City as requested by Grapevine.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF EL MONTE DOES HEREBY FIND AND RESOLVE AS FOLLOWS:

SECTION 1. That the above recitals are true and correct.

SECTION 2. The City Council hereby acknowledges the receipt of the document entitled “AB 562 Economic Development Report,” dated April 30, 2019, in the form as presented to the City Council during the meeting at which this Resolution was adopted. The AB 562 Economic Development Report describes new City funds and revenues which may be made available by the City to Grapevine in support of the Project from new development occurring within the boundaries of the Project, and no other source of City funds is requested or proposed to be available by the City to support the development of the Project.
SECTION 3. (a) Subject to the preparation and approval by the City Council of a City funds pledge agreement in favor of Grapevine as the developer of the Project, the City Council hereby declares its intention to provide Grapevine with certain public financing assistance for the development of the Project which includes the following elements:

(i) a pledge of City transient occupancy tax revenues produced from the operation of hotels to be constructed on Parcel 3 and Parcel 5 in an amount not to exceed $57,286,182; and

(ii) a pledge of available City funds in an amount not to exceed $27,317,573 in motor vehicle license fee revenues allocated to the City by the State of California as “property tax in lieu of VLF” produced from the development of the Project; and

(iii) a pledge of City sales tax revenue (including local City transaction tax revenues) in an amount not to exceed $28,097,241 produced by taxable retail sales transactions in the Project.

(b) The term of the pledge to Grapevine by the City of the City revenue sources identified in Section 3(a) shall not exceed twenty-five (25) years following the commencement date of such proposed pledge of City revenues.

(c) The sole source of City funds as proposed to be made available to Grapevine in support of the Project shall be obtained from new revenue of the City as produced by the development, improvement and operation of the Project, and no other funds or assets of the City shall be pledged or made available therefor. The City Council hereby reserves the discretion to approve the form of the City funds pledge agreement referenced in Section 3(a) concurrently with the final approval by the City of the development project entitlements for the improvement of the Project, and each element thereof, including without limitation, the approval by the City Council of one or more amendments of the El Monte Gateway Specific Plan and the City of El Monte General Plan; provided however that nothing in this Resolution be deemed to prevent the City from considering the allocation of other City financial assistance to Grapevine in support of the Project.

SECTION 4. The adoption of this Resolution shall not be deemed to obligate the City to approve any application or request for development project approval, or take any other action in connection with California Environmental Quality Act, the City general plan, zoning or any other City development permit necessary for the development and operation of the Project.
SECTION 5. This Resolution shall take effect upon adoption. The City Clerk shall certify to the adoption of this Resolution.

PASSED AND ADOPTED by the City Council of the City of El Monte at its regular meeting on this _____ of ________________, 2019.

________________________________________
Andre Quintero,
Mayor of the City of El Monte

ATTEST:

____________________________
Catherine A. Eredia
City Clerk of the City of El Monte
I, Catherine A. Eredia, City Clerk of the City of El Monte, do hereby certify that the above and foregoing Resolution No. _________ was passed, approved, and adopted by the City Council of the City of El Monte, signed by the Mayor and attested by the City Clerk at a meeting of said City held on this ______day of __________________________ 2019, and that said Resolution was adopted by the following votes to wit:

AYES:

NOES:

ABSTAIN:

ABSENT:

______________________________
Catherine A. Eredia
City Clerk of the City of El Monte
Gateway Mixed-Use Transit Development Analysis
Gateway Development Briefing

To:       City of El Monte
           Mr. Alex Hamilton, City Manager
           Ms. Alma Martinez, Assistant City Manager

From:    Tierra West Advisors, Inc.
           John Yonai, Principal

Tierra West Advisors, Inc. (“Tierra West”) was retained by the City of El Monte to assist in the review of The Gateway Mixed-Use Transit Development Project (“Development”). The purpose of this review is to provide information regarding the economic feasibility of the Development, identify and assess the requested subsidies essential to the Development, and review the potential economic impact to be realized by the City of El Monte (“City”).

The information and analysis provided in this report is based primarily on fiscal and economic impact data provided by the City and the developer of the project, Grapevine Development, LLC. Specifically, Tierra West received from the City and Developer pro formas for each of four (4) parcels included in the Development site.

This report includes the information required by AB 562 complemented by a fiscal analysis of the projected revenue to be realized by the City as part of the City’s economic development plan for business retention, revenue enhancement and economic stimulation.

The City established an estimated “Revenue Tax Base” of sales tax collected by the City from the Developer. After the Revenue Tax Base was determined, projections of additional revenue generation from sales tax collections directly attributable to the Development were generated. The Revenue Tax Base and the projected increased revenues from the Project represent new resources, as well as a retention, of general funds revenue to the City. An amount equivalent to a portion of the sales tax revenue collected will be shared with the Developer to avoid significant fiscal impacts to City revenues and community services.

Traditionally, economic development strategies require a demonstration that the proposed business retention will result in community-wide benefits, which is evidenced by the retention of revenues that will be used to provide municipal services. The City Council may choose to approve the Project Agreement in order to retain and expand jobs and expand the local economy. This report identifies the
financial data necessary to allow the City Council to determine the value of entering into the proposed Agreement.

**Project Overview**

The Gateway project is envisioned as a regionally significant, mixed-use transit oriented development which integrates public transit, residential, retail, commercial, and recreational and entertainment uses.

Located entirely within the redevelopment project area of the Downtown El Monte Redevelopment Project, the Development is located in the west-central portion of the City of El Monte and encompasses approximately 60.15 acres.

The Project as a Model for Transit Oriented Development (TOD) - The Gateway Mixed-Use Transit Development Project is based upon design principles embodied in the concept of TOD. This concept involves the creation of compact, mixed, pedestrian-friendly development in close proximity to mass transit facilities. Density, transit accessibility and the pedestrian orientation features are the core components of this concept complimented by economic development and vitalization.

The TOD approach is a land use strategy utilized to stimulate transit usage, to utilize green building concepts and to reduce traffic generation and therefore positively impact the local carbon footprint. The ultimate effects of these strategies include enhanced revenue for the City, improved quality of life for residents by providing modern conveniences, increased entertainment and recreational options, reduction of traffic congestion, reduced energy consumption, and reduced area and mobile source air pollutant emissions.

The project will include reconfiguration of the existing parkland, improvements and additions to the existing recreational opportunities, improved access to and visibility of public parklands, rehabilitation of existing historic resources, implementation of the Emerald Necklace concepts along the Rio Hondo River adjacent to the site, the integration of a pedestrian/trail system throughout the development and the establishment of pedestrian connections to adjacent commercial and residential areas.

The Development site will reconnect the various sections of El Monte, which has proven to generate new economic activity. Moreover, the project will most likely
stimulate additional commercial and infrastructure investments. This includes ongoing interest in such developments as an underpass connection to the Transit Center, access to the Flair Park business center located south of Interstate 10 and pedestrian bridges connecting the Valley Mall to the east, that create connections to support Downtown El Monte.

The original Gateway Specific Plan addressed a mix of housing types and sizes, designed to accommodate the needs of a diverse population. Because the site is located within the boundaries of the Downtown El Monte Project Redevelopment Area, a goal has been established to make a percentage of units affordable to low- and moderate-income households.

**Summary of Findings**

The analysis of the proposed development project and the proposed project public revenue sharing incentives are summarized below.

1. Review of the data provided information indicated that the Developer is seeking approximately **$41.93 million** in Development generated public revenues. This amount has been defined by Tierra West’s preliminary review of the development pro formas provided by the Grapevine Development LLC. (“Developer”). The assistance or public revenue sharing is specifically generated from the development of Parcels 2, 3, 4, and 5.

<table>
<thead>
<tr>
<th>PARCEL IDENTIFICATION</th>
<th>DEVELOPER REQUESTED PUBLIC REVENUE SHARING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parcel 2</td>
<td>No Public Revenue Sharing Requested</td>
</tr>
<tr>
<td>Parcel 3</td>
<td>$18.21m Requested in Public Revenue Sharing</td>
</tr>
<tr>
<td>Parcel 4</td>
<td>$5.6m Requested in Public Revenue Sharing</td>
</tr>
<tr>
<td></td>
<td>$2.5m Requested in Public Revenue Sharing from Parcel 2</td>
</tr>
<tr>
<td></td>
<td>$4.52m Requested in Public Revenue Sharing from Parcel 5</td>
</tr>
<tr>
<td>Parcel 5</td>
<td>$11.1m Requested in Public Revenue Sharing</td>
</tr>
<tr>
<td><strong>Total Subsidy Request</strong></td>
<td><strong>$41.93 million</strong></td>
</tr>
</tbody>
</table>

2. Tierra West reviewed the Developers pro formas, which included the Developers estimated costs for land, construction (hard and soft costs) and financing. As such, the
table below summarizes the estimated costs and includes project revenue projections and projected project values for each Parcel development.

**Developer Project Financial Summary**

<table>
<thead>
<tr>
<th>Development Costs</th>
<th>Parcel 2</th>
<th>Parcel 3</th>
<th>Parcel 4</th>
<th>Parcel 5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$M</td>
<td>$M</td>
<td>$M</td>
<td>$M</td>
</tr>
<tr>
<td>Land Costs</td>
<td>10.3</td>
<td>2.8</td>
<td>1.5</td>
<td>19.60</td>
</tr>
<tr>
<td>Hard Costs</td>
<td>54.3</td>
<td>64.1</td>
<td>74.3</td>
<td>156.6</td>
</tr>
<tr>
<td>Soft Costs</td>
<td>13.7</td>
<td>26.04</td>
<td>34.5</td>
<td>45.3</td>
</tr>
<tr>
<td>Financing Costs</td>
<td>7.5</td>
<td>11.7</td>
<td>12.4</td>
<td>11.6</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td>85.8</td>
<td>104.64</td>
<td>122.7</td>
<td>233.1</td>
</tr>
<tr>
<td>Annual Revenue Projections</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Rental Income</td>
<td>4.6</td>
<td>6.4</td>
<td>6.7</td>
<td>6.0</td>
</tr>
<tr>
<td>Project Value</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated Value</td>
<td>103.5</td>
<td>107.3</td>
<td>146.0</td>
<td>278.0</td>
</tr>
</tbody>
</table>

The review of the data, provided by the Developer, included a comparison with other similar projects. Based on Tierra West’s review, the estimated costs for land, hard and soft construction costs, and financing were found to be consistent with industry standards. A discussion of the individual parcels below provides additional detail.

**Parcel 2**
A review of the costs related to Parcel 2 were found to be generally in line for the described development and with the schematics, which were reviewed. Tierra West noted that the average development cost per residential unit is approximately $321,000. Based on development of other large vertical residential projects, the costs are within industry tolerances.

**Parcel 3**
A review of the costs related to Parcel 3, which includes hotel and retail space, pad, development and a community center facility may appear to be high per square foot resulting from the development of a parking structure. The parking structure square footage is approximately 140% larger than the useable project square footage that is revenue generating. Tierra West’s review of the costs related to the development of the hotel and retail spaces in parcel 3 are within industry tolerances. Moreover, the
parking structure consists of approximately 250,000 square feet and its costs are within industry standards.

Parcel 4
A review of the costs related to Parcel 4, which include the mixed-use project (retail with residential space) were found to be within industry tolerances. Worthy of noting is the impact which environmental related expenditures will impact the overall costs of development on this parcel. Further, the required environmental related effort has caused delay in project development, which organically increases project costs.

Project 5
A review of the costs related to Parcel 5, which includes the development of a hotel, theatre, fitness, office and retail space required a more in depth review by Tierra West, specifically the estimated land costs. Tierra West’s review of the developers pro forma suggests that the hard, soft and financing costs are all within industry tolerances. Further, the review of project financials suggest that past value analyses and appraisals support the land value utilized in the development assumptions. Worthy of noting is that this large mixed-use project has encountered physical constraints due to the adjacency to the freeway, airport and width of the site.

Revenue Review
Tierra West reviewed the revenue projections for the Developments of Parcels 2, 3, 4 and 5. The Developer’s assumptions utilized for each use were confirmed to be within industry tolerances for a project the size of the Gateway Mixed-Use Transit Development. Success of the complete development will be dynamic for the City and Region causing other developments to follow within the City and add to future General Fund revenues.

Project Valuation
Tierra West reviewed the Developer’s individual Project Value Projections. The values were also within industry tolerances.

However, Tierra West’s independent models and pro formas used to determine public revenues available for potential sharing with the Developer applied more conservative valuations. Such is the basis for the revised calculations.

3. The chart below summarizes the public revenues generated by the development of Parcels 2, 3, 4 and 5 and is indicative of what is anticipated to be available during the initial 25 years. As is demonstrated in the chart, during the first 25 years, the project will generate $112,700,966 in public revenue from Property Taxes in lieu of VLF, Transient Occupancy Taxes, and Sales Taxes generated by the Development.
It should be noted that the public revenue from the site will be significantly increased once the current indebtedness from former Redevelopment Agency Bonds are paid off.

It is estimated that once these bonds are paid off in 2032, the City Annual Property Tax revenue will increase by **$640,000 per year** (NPV of $160,000/yr.) or $15,900,000 (NPV or $4,100,000) over a 25 year period when the RDA bonds are retired.

<table>
<thead>
<tr>
<th>City of El Monte Gateway Development Project</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Summary of Revenues and Sharing</strong></td>
</tr>
<tr>
<td><strong>Parcel 2,3,4 &amp; 5 Public Revenues Over 25 years</strong></td>
</tr>
<tr>
<td><strong>Project Totals</strong></td>
</tr>
<tr>
<td><strong>Property Tax In-Lieu of VLF</strong></td>
</tr>
<tr>
<td>$27,317,573</td>
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<tr>
<td><strong>NPV @ 5%</strong></td>
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<tr>
<td>$14,285,103</td>
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<tr>
<td><strong>Hospitality Visitors Tax – TOT</strong></td>
</tr>
<tr>
<td>$57,286,182</td>
</tr>
<tr>
<td><strong>NPV @ 5%</strong></td>
</tr>
<tr>
<td>$22,138,603</td>
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<tr>
<td><strong>Sales Tax</strong></td>
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<tr>
<td>$28,097,241</td>
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<tr>
<td><strong>NPV @ 5%</strong></td>
</tr>
<tr>
<td>$14,688,913</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
</tr>
<tr>
<td>$112,700,966</td>
</tr>
<tr>
<td><strong>NPV @ 5%</strong></td>
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<tr>
<td>$51,112,619</td>
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</tbody>
</table>

4. The proposed economic development assistance program is based on the future streams of public revenues generated from the Development site. These sources include: (i) Property Tax in-lieu VLF generated from the Development, (ii) Transient Occupancy Tax (“TOT”) that will be generated from uses on the Development site, and (iii) Sales Tax also generated by retailers and others on the Development site.

The anticipated public revenue sharing agreement will formalize the sources of the tax sharing assistance that will be provided to the Developer, with the exception of some infrastructure provisions, development fee deferrals, and discounted land prices. The public revenue sharing assistance amount is based on Development site generation amounts and is consistent with industry standards when compared with other public revenue sharing project requests.
The following chart demonstrates how a public revenue sharing economic development program might be funded from the Gateway Mixed-Use Transit Development site and what is generated from the specific development of Parcels 2, 3, 4 and 5:

<table>
<thead>
<tr>
<th>Gateway Development Summary of Revenues and Sharing Subject to Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developer Requests per Parcel @ NPV</td>
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<tr>
<td>------------------------------------</td>
</tr>
<tr>
<td>Parcel 2</td>
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<td>Parcel 3</td>
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<td>Parcel 4</td>
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<td>Parcel 5</td>
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<tr>
<td>TOTAL</td>
</tr>
</tbody>
</table>

INCENTIVE PACKAGES FOR COMPARABLE PROJECTS

Hotel projects are often encouraged by municipalities for a variety of reasons. The incentive packages provided to potential hotel developments can include a variety of funding mechanisms, such as municipal-backed bonds or revenue bonds, supported by incremental tax revenues within a special taxing district. Bonding may require a municipality to pledge city funds to guarantee the financial performance of the proposed project. Some examples of recent development agreements in other cities are provided below.
5. The City has sought to encourage development of a tourism-related project at this site over the past thirty (30) years. The proposed economic development public revenue sharing proposal provides a vehicle to encourage a major long-term revenue generator, which will also catalyze additional tourism-related development as well as other forms of economic development for the City.

6. The mixed-use nature of this project means that it will create significant employment opportunities for the residents of El Monte, both during and after completion of construction. There will be a broad range of occupational opportunities, such as hourly retail, service, clerical and professional. The area will establish strategic alliances with the Rosemead-El Monte Adult School, the Rio Hondo Community College, the Workforce Improvement Board, and other service providers to identify job opportunities and recruit local residents into job training programs designed to qualify participants for the jobs that the project will create. An estimated 3000+ jobs are forecast to be created at this location based on the proposed retail commercial and professional office space forecasted to be constructed at the area.
<table>
<thead>
<tr>
<th>Parcel</th>
<th>Parcel 2</th>
<th>Parcel 3</th>
<th>Parcel 4</th>
<th>Parcel 5</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>390</td>
<td>558</td>
<td>660</td>
<td>870</td>
<td>2,478</td>
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<tr>
<td>Permanent</td>
<td>8</td>
<td>189</td>
<td>103</td>
<td>301</td>
<td>601</td>
</tr>
</tbody>
</table>

**PROJECT PUBLIC REVENUE SHARING INCENTIVES**

Public Revenue sharing agreements between project developers and municipalities have become a viable solution for many entities and somewhat relatively common due to (i) facilitating the addition of a new tax generation source for the municipality and (ii) reducing required additional capital and risk for the developer. Although Agreements between municipalities and developers can vary widely, certain financing elements are often included in some form or another.

Typical financing mechanisms may include:

- **Low Interest Financing** (often through issuance of bonds or access to redevelopment funds).

- **Tax Incentives** (often through tax rebates or sharing of new taxes generated by the development for a certain timeframe).

- **Discounted Land Pricing** (if municipal-owned land is involved).

- **Infrastructure** (provided by the municipality).

**TOT REBATE PROGRAMS**

While incentive packages for comparable projects in other cities, such as those noted above, have included tax increment financing or other bond issuance, similar to the El Monte Gateway Project, the proposed development incentive package relies primarily on sharing, or rebating the anticipated future stream of TOT revenue.

As referenced, TOT rebate incentive programs have become an increasingly common hotel development incentive tool in California. Several jurisdictions in California, mostly in the southern portion, have established TOT rebate programs to encourage development of new hotel projects.
The jurisdictions include such tourism destinations as Palm Springs, Anaheim, and Santa Barbara County, among others. These jurisdictions have passed ordinances to allow pre-determined percentages of future TOT revenue to be shared with hotel developers and operators that meet certain criteria as a means of encouraging development of new hotel projects.

The maximum percentage of TOT revenue shared with hotel developers/operators by these jurisdictions is generally in the range of 50 to 70 percent, and the maximum period that the TOT revenues can be shared is mostly in the 15 to 20-year range. Some jurisdictions have caps on the total dollar amount of TOT that can be shared. The table below, highlights the key aspects of TOT rebate programs in several California jurisdictions, including TOT sharing percentages, incentive duration, and maximum caps on the amount shared, if any.

### TOT REBATE INCENTIVE PROGRAMS IN CALIFORNIA

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Share of TOT</th>
<th>Period</th>
<th>Incentive Cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Palm Springs [1]</td>
<td>50% - 75%</td>
<td>10 - 20 years</td>
<td>$25 - $50 million</td>
</tr>
<tr>
<td>City of Anaheim</td>
<td>70%</td>
<td>20 years</td>
<td>N/A</td>
</tr>
<tr>
<td>City of Los Angeles [2]</td>
<td>50% maximum</td>
<td>Usually 20 years</td>
<td>As Needed</td>
</tr>
<tr>
<td>City of Dublin, CA [3]</td>
<td>50% - 70%</td>
<td>15 - 20 years</td>
<td>As Needed</td>
</tr>
<tr>
<td>Santa Barbara County</td>
<td>70%</td>
<td>15 years</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Based on the need for public revenue sharing and specifically the request for transient occupancy tax generated by the Development, the City may consider reviewing its current ordinance and transient occupancy tax percentage. Currently the City has a ten percent (10%) rate for its TOT percentage. The City may consider reviewing the current percentage and look to adjusting it to more current TOT percentages. Tierra West recommends that the City consider increasing its current percentage to fourteen percent (14%). 14% represents a reasonable rate compared to local cities.
The analysis utilizes informed estimates of room rate and occupancy assumptions, based on discussions between the City and the Developer. Accordingly, it has been assumed that when the project reaches stabilization in the third year of operations, the Average Daily Rate (ADR) will be $135, with an occupancy rate of 75 percent. As shared with City staff and previously referenced above, Tierra West has taken conservative estimates as a means of positioning the City in the best fiscal light.

RECOMMENDATIONS AND CONCLUSIONS

❖ The City should consider developing and adopting an Economic Development Program that addresses public revenue sharing for all dynamic projects that involve developments in excess of $50,000,000 in costs.

❖ The adoption of an Economic Development Program, similarly adopted by many cities, such as Los Angeles, allow for cities to address the needs of large-scale projects. The proposed Development combined with a City Economic Development Program that allows public revenue tax sharing from the subject site works effectively to minimize the major risk to the City of El Monte. The incentive package is funded solely by the projected property tax in-lieu of VLF, property tax, sales tax, and TOT revenue that will be generated by the development. The City could provide for guarantees as a manner to provided soft support but with limitation.

❖ After the public revenue sharing incentive provisions expire after year 25, the City would keep all municipal revenue from the project, hence the importance of taking steps to ensure the property is well-maintained and updated in the interim such that it continues to generate substantial property tax, sales tax, TOT and other municipal revenues.

❖ The proposed Development, assuming that it is completed and that the assessed values are as the Developer has proposed, will generate approximately $150,000,000 in public revenue (property tax in-lieu of VLF, property tax, sales tax and transient occupancy tax) over the next 25 years. The equivalent amount in net present value is expected to be approximately $72 million.

❖ The local economy will benefit from over $550 million of new construction activity on Parcels 2, 3, 4, and 5 plus an additional $50 million of MTA related improvements. Together, this will absolutely impact the economic activity in the region.
It is anticipated that the Development will produce a net fiscal surplus to the City of approximately $1.2 million annually at project stabilization, after public revenue sharing, property tax, TOT and sales tax sharing with the Developer.

The operation of the Project is estimated to result in 3000 full time equivalent (FTE) jobs directly on-site, plus more than 100 additional indirect and induced jobs within the City and County.

The overall public revenue sharing incentive is a relatively small percentage of the development cost, about 7.7% of total development which is generally consistent with public revenue sharing incentive percentages for comparable projects.

The public revenue sharing incentives, proposed by the Developer are consistent and within tolerance with mixed-use, residential and hotel development incentive programs found in California.

By way of example, the County of Santa Barbara allows new hotel developments to receive up to 70 percent of the TOT they generate for 15 years. The City of Palm Springs allows for tax sharing equal to 50 percent of the TOT generated by new hotels for 10 to 25 years, with caps of $25 million to $50 million depending on the class of hotel.